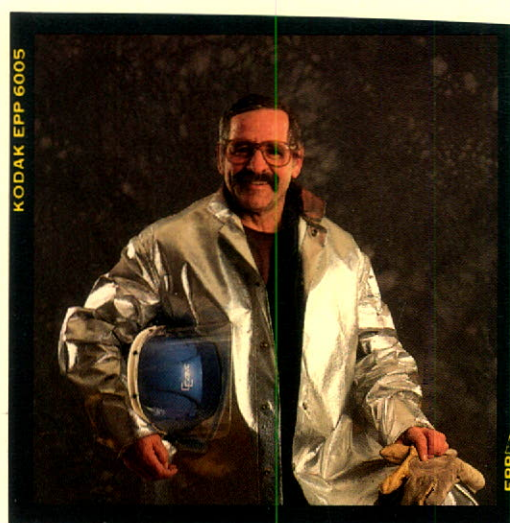
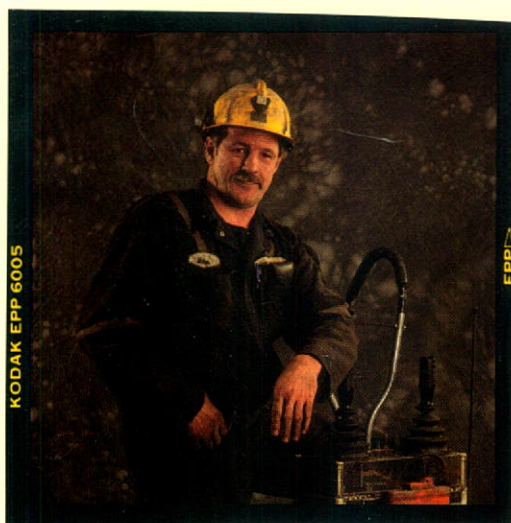
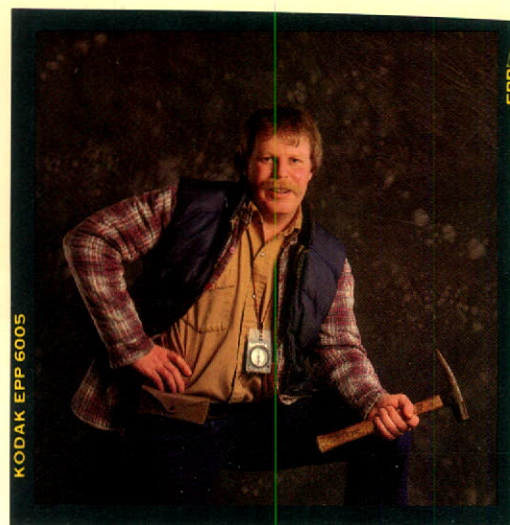
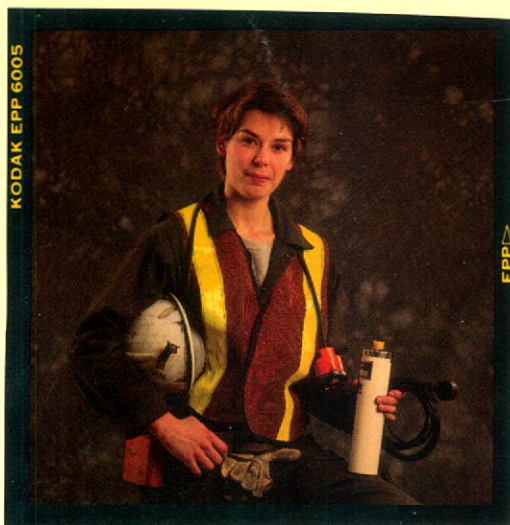




*Kerr Addison's strengths are
in its assets - one being quality people with
dedication and leadership.*



KERR ADDISON MINES LIMITED
ANNUAL REPORT 1990

K*err Addison is a significant metals producer,
an experienced mine operator and developer,
an aggressive explorer for minerals and holds extensive investments
in the resource industries. The Company was
incorporated over fifty years ago and has paid dividends for
51 consecutive years.*

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ANNUAL MEETING
OF SHAREHOLDERS

The annual meeting of
shareholders will be held in
Commerce Hall of Commerce
Court West, King and Bay
Streets, Toronto, Ontario on
Friday, May 3, 1991 at 11:30 a.m.

*The studio photographs
throughout this report are of a
representative group of the
individuals in our
organization and are not
intended to depict actual
working conditions.*

FINANCIAL SUMMARY

	<i>(millions of dollars)</i>				
	1990	1989	1988	1987	1986
Net sales	\$211.6	\$131.7	\$109.9	\$ 90.2	\$ 59.2
Net income	17.6	12.6	10.5	24.0	5.1
Cash and short-term securities	89.7	94.7	128.2	203.1	74.3
Total assets	629.2	663.0	683.3	695.7	518.1
Long-term debt	75.0	125.0	125.0	135.0	50.0
Shareholders' equity	357.7	350.4	348.2	348.1	331.1
	<i>(dollars per share)</i>				
Net income	\$1.00	\$ 0.72	\$ 0.60	\$ 1.38	\$ 0.30
Dividends declared	0.60	0.60	0.60	0.60	0.60

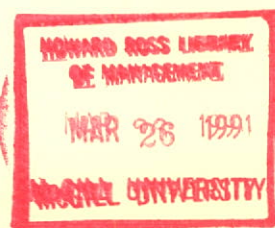
IN THIS REPORT

Dollars are Canadian unless otherwise noted.

As at December 31, 1990 U.S. \$ = Cdn. \$1.16 (1989: U.S. \$ = Cdn. \$1.16)

HIGHLIGHTS

- Metals sales increased by 60%, as our two new mines, Ansil and Samatosum, produced for a full year.
- Operating profit more than doubled the level of the previous year.
- Cash flow from operations increased significantly to \$3.77 per share.
- Earnings improved to \$1.00 per share.
- Lost-time accident frequency improved by 25% over that of 1989.
- Four projects reached the advanced exploration stage.
- Canadian Electrolytic Zinc commissioned its new 230,000 tonnes per year cellhouse.
- Anderson Exploration Ltd. increased its oil and liquids production by over 50% and successfully completed a \$35 million equity issue.



This Annual Report highlights one of our major resources, a representative group of the individuals in our organization.

More than ever, we believe that it is the personal contributions of our people which have permitted this Company to produce profits and provide returns consistently for our shareholders. Kerr Addison has now paid dividends for fifty-one consecutive years. We know that our people will strive to be productive – our challenge is to maintain an environment which fosters and encourages the individual's participation and ideas necessary to keep this enterprise successful.

Our Strategic Statement, set out below, reaffirms Kerr Addison's return to its mining roots. In 1989, the Company sold substantially all of its interest in the Canadian Hunter Joint Venture. In January 1991, the Company announced its intention to sell all of its interest in Anderson Exploration Ltd. The Anderson investment represents Kerr Addison's remaining involvement in the oil and gas industry. For the future, the Company intends to concentrate its funds and management resources on its core business of mining.

STRATEGIC STATEMENT

Kerr Addison's primary objective is to create wealth for its shareholders by discovering, acquiring, developing and operating mines that:

1. Provide long-term production capabilities that meet the Company's rate of return parameters.
2. Meet or exceed the Company's standards of excellence and innovation relating to safety, efficiency, the environment and ethics.
3. Strengthen the Company's financial, personnel and technical base.



(Left to right – seated): **John Carrington**, Senior Vice-President (Minnova Inc.), **Ian Bayer**, President and Chief Executive Officer. (Left to right – standing): **Peter Bojtos**, Vice-President – Corporate Development, **David Watkins**, Senior Vice-President (Minnova Inc.), **Jeffery Snow**, Vice-President and General Counsel.

1990 IN REVIEW

On balance, 1990 was a good year for the Company. Production and cost performances by our five mining Divisions were excellent. Two new mines, Ansil and Samatosum, both of which commenced commercial production in July 1989, produced for a full year in 1990. In addition, the average prices for zinc and copper, our most important products, were strong. All of these factors contributed to improved operating results, significantly increased operating cash flow and enhanced the Company's financial strength. Our continuing search for minerals saw four projects reach the advanced exploration stage. Canadian Electrolytic Zinc successfully commissioned its new 230,000 tonnes Vieille-Montagne cellhouse as part of its modernization program. Anderson Exploration increased its oil and liquids production by over 50% and improved its financial flexibility by completing an equity issue.

Offsetting these successes was the absence of any significant addition to ore reserves at our mining operations. Also, the Company dealt with two difficult issues: a partial write-down of the carrying value of the Lac Shortt mine and the provision for the future costs of the ultimate closures of our mining properties.

OPERATIONS

Our mining Divisions met and overcame a variety of challenges during 1990. Overall, metal production met our internal expectations, with zinc and gold sales exceeding targets. Winston Lake had an excellent year, having developed the experience necessary to control the instability of the orebody's hanging wall. At Ansil, metal production was on plan, even though the mine operated for over one-third of the year without the use of the ore pass system, which was undergoing repairs. Samatosum operated at higher-than-design throughput rates in an attempt to offset lower mill feed grades. Opemiska performed well in its revised eighteen month program, which provides for the mining of the remaining economic reserves by the middle of 1991.

Zinc slab production at C.E. Zinc increased by 7% over 1989, although volumes were below expectations because of recurring operating problems in the leaching and purification sections of the plant. Production has improved and, with the new cellhouse in operation and a growing number of downstream products, C.E. Zinc has become one of the most modern and efficient zinc refineries in the world.

At Lac Shortt, gold production was constrained by the shaft rockburst which occurred in November 1989. In addition, a review was carried out during the third quarter of 1990 of the projected revenues

and expenses for its remaining two year mine life. This study indicated that a substantial increase in gold prices would be required to permit the full recovery of the Company's investment in that mine. As a result, it was considered appropriate to reflect the shortfall in the accounts and a pre-tax charge of \$10.0 million was made against earnings.

On a more positive note, cumulative operating profits have now paid back the original investments in the Ansil and Winston Lake mines. At Ansil, this took one and one-half years after the commencement of commercial production and, in the case of Winston Lake, two and three-quarter years.

S A F E T Y A N D T H E E N V I R O N M E N T

As previously stated, we set high standards for employee safety and environmental protection. During 1990, our lost-time accident frequency improved by 25% over the previous year. In addition, the Lac Dufault Division was awarded the F.J. O'Connell Safety Trophy for mid-sized mines by the Quebec Mining Association.

Our mining Divisions continued to improve their environmental performance with all but one exceeding 94% compliance with their respective effluent discharge standards. Ongoing clean-up and restoration work was carried out during the year at all of our mine sites.

The Canadian Institute of Chartered Accountants has recently announced new accounting recommendations regarding capital assets, specifically addressing the issue of future removal and site restoration costs. The Company has conducted a review of the estimated costs associated with the ultimate closure of its five operating Divisions and one former operation. As a result, we have made an additional \$10.0 million provision for mine closures as a charge against 1990 earnings. Additional provisions, if any, against closure will be charged to future years' operations.

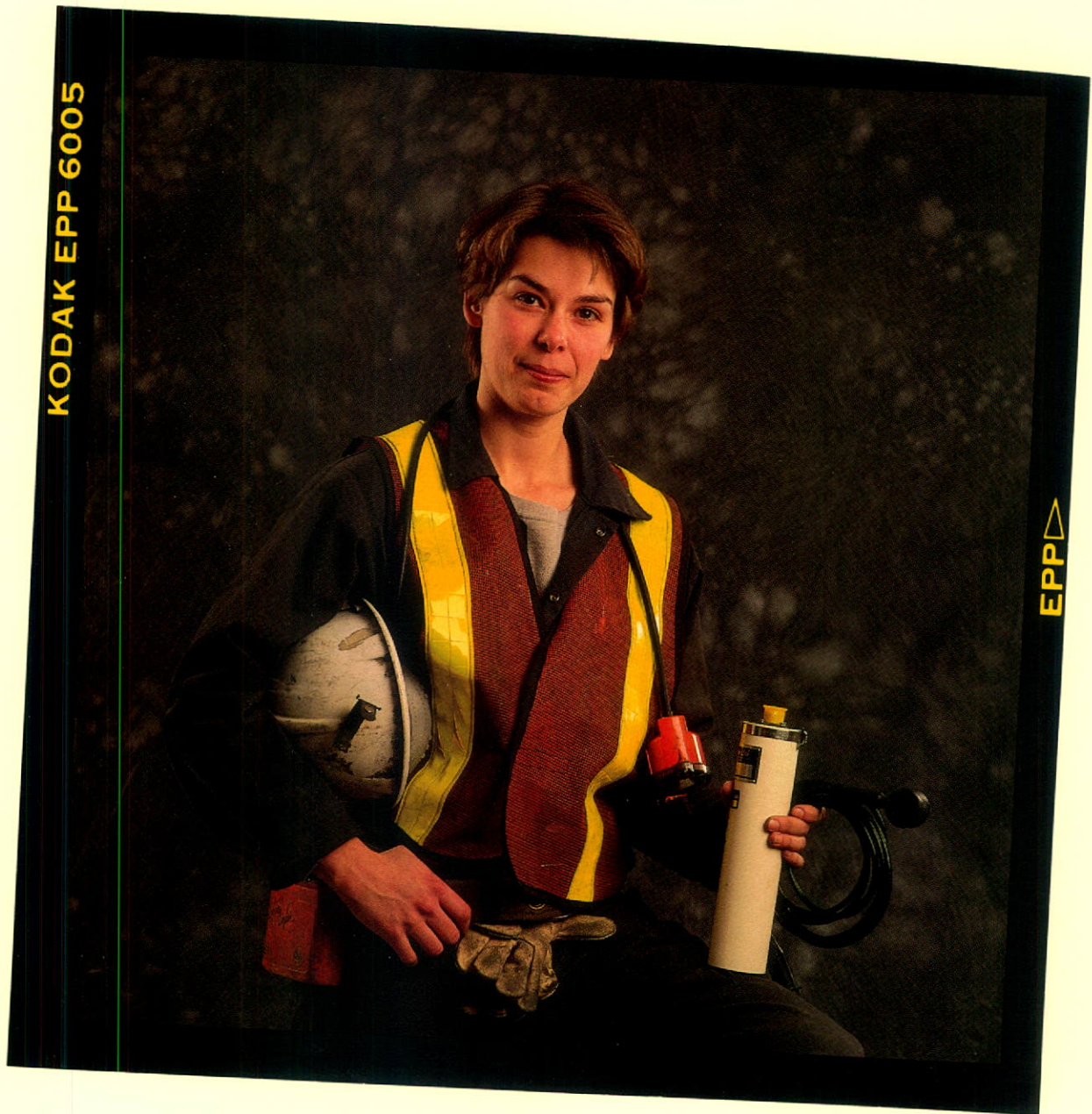
M I N E R A L E X P L O R A T I O N

The Company is heavily committed to exploration as our principal engine for growth. Sound geological concepts will continue to form the basis for selecting target regions and projects. Expenditures on exploration increased by 12% in 1990 to \$23.9 million, including costs of \$6.2 million on the evaluation of the Mobrun 1100 lens. Minnova Inc. is in the process of earning a 50% interest in this large massive sulphide deposit located near our Lac Dufault Division. Studies to evaluate the economic viability of a number of operating alternatives for the deposit are in progress.

Three other projects, the Pick Lake massive sulphide deposit near Winston Lake in Ontario, the Lac Frotet gold deposit north of Chibougamau, Quebec and the Pend Oreille zinc-lead deposit in Washington State, have also reached the advanced exploration stage.

KODAK EPP 6005

EPP



Veronique Falmagne is a mining engineer who specializes in rock mechanics at our Ansil operation and is responsible for the design and mining sequence of the orebody.

The dedication of the members of her team and those with similar functions at our other operations ensures the extraction of our ore with maximum efficiency and safety.



O I L A N D G A S

Anderson Exploration Ltd. had record levels of production volumes and cash flow in 1990. As previously reported, oil and liquids production increased significantly over 1989. Despite increased capacity, natural gas volumes declined slightly on lower demand and pipeline restrictions. Exploration, acquisition and development expenditures were approximately \$74 million and Anderson participated in 92 working interest wells. This drilling resulted in 32 oil wells and 44 natural gas wells. As of September 30, 1990, proven natural gas reserves had increased to 575 billion cubic feet, while proven crude oil and natural gas liquids reserves increased to 16.4 million barrels.

During the fourth quarter Anderson sold two million common shares, as well as warrants to purchase a further one million shares, for net proceeds of \$35.4 million. Kerr Addison did not participate in this equity issue, which reduced the Company's share interest in Anderson to 30.5% and resulted in a \$2.6 million dilution gain.

I N V E S T M E N T S

Investment income and gains from the sale of investments increased slightly to \$30.6 million in 1990. In addition to the equity interest in Anderson, the Company holds 7.4 million common shares of Noranda Inc. and a \$46.8 million Noranda Inc. promissory note. Together, these three investments have a book value of

\$255.4 million, or \$14.55 for each Kerr Addison share outstanding. As previously reported, the Company intends to liquidate these holdings at the appropriate time and re-deploy the funds to the expansion of its mining interests.

O P E R A T I N G A N D F I N A N C I A L R E S U L T S

Net income for 1990 was \$17.6 million, or \$1.00 per share, compared to earnings of 72 cents per share in the previous year. Net sales increased by 60% over 1989 to \$211.6 million, reflecting strong production performances by our operations and a full year's contribution from our two new mines. Operating profit was \$39.4 million, more than double the level of the previous year. These improvements were somewhat offset by increased exploration expenditures, the write-down in respect of the Lac Shortt mine and the provision for mine closure costs. A credit of \$8.0 million relating to Quebec mining duties partly mitigated the effect of these additional costs.

As noted previously, average prices for copper and zinc were reasonably strong during 1990, although they did decline by 5% and 10% respectively from 1989. On average, gold prices were similar to the previous year, whereas silver prices were more than 10% below those of 1989, and are presently very weak. Natural gas prices were slightly lower in 1990, whereas oil markets were considerably stronger, especially during the second half of the year.

Cash provided by operating activities increased to \$66.1 million, or \$3.77 per share, and proceeds of \$11.7 million were received on the redemption of preferred shares. Long-term debt was reduced by \$50.0 million to a balance of \$75.0 million at year-end. Capital expenditures were \$19.0 million, approximately 50% of which was expended on the C.E. Zinc modernization program. Dividends of 60 cents per share were paid, similar to 1989. In summary, cash and short-term securities declined by \$5.0 million during the year, to a balance of \$89.7 million at December 31st.

O U T L O O K

Base metal prices are expected to decline further in 1991 as demand weakens. Growth in industrial production for the OECD countries will be reduced to minimal levels, with some countries already experiencing a recession. A satisfactory settlement to the war in the Middle East would remove some of the uncertainties impeding economic expansion. With renewed confidence, the recovery should bring modest growth in an extremely competitive environment. Meanwhile, world inventories of copper and zinc have grown only modestly because of a number of supply disruptions. Prices for gold and oil will reflect events in the Middle East and silver markets are quite disappointing as supplies continue to increase.

In the short term, excess supplies coupled with pipeline constraints will continue to depress natural gas prices at levels similar to those in 1990. How-

ever, the longer term outlook for natural gas in North America is very positive.

The primary challenge facing Kerr Addison is to build upon our mineral reserve position, as a number of our mines have short-term lives. Opemiska will complete the mining of its existing reserves in 1991 and Lac Shortt is expected to close in 1992. We will maintain our strong exploration effort in 1991, concentrating on our four advanced projects. Our exploration and acquisition parameters are clearly defined to add reserves near existing operations and bring on new mines which are cost competitive and have long lives.

In Canada, the high value of the Canadian dollar, high real interest rates and increases in government mandated costs continue to erode our competitive position. The challenge facing the mining industry is to offset these factors through improved productivity and technology. With Canada in a deep recession, the industry will get some help from a weaker Canadian dollar, lower interest rates and the increased availability of workers.

As I said at the outset, Kerr Addison had a good year in 1990, having bounced back from disappointing mining results in 1989. The credit for the turn-around goes to all of our people and, on behalf of the Board of Directors, I thank them for their extra efforts.



Ian D. Bayer

President and Chief Executive Officer

Toronto, Canada, February 6, 1991

Mining

WINSTON LAKE DIVISION

The Winston Lake Division, located near Schreiber, Ontario, had a very successful year and met or exceeded its operational targets. Cash operating profit for the Division was \$36.3 million compared to \$22.5 million in 1989. The production of 112,730 tonnes of zinc concentrates and 12,250 tonnes of copper concentrates made this a record year since the mine's start-up in April 1988.

The mining of 346,000 tonnes of ore was above plan for the year. The problems associated with the instability of the ore-body's hanging wall, which were encountered in 1989, were held under control by an effective cable bolting program.

The mill operated at a high efficiency level and was able to achieve improvements in zinc concentrate grade and copper recovery. A new on-stream element analyzer was installed in the milling circuit to enhance the stability and reliability of the processing.

LAC DUFALT DIVISION

The Ansil mine, situated near Rouyn-Noranda, Quebec, completed its first full year of production and achieved excellent results. It generated a \$51.4 million cash operating profit compared to \$10.7 million over its initial six months in 1989.

The mine operated at reduced production levels during the first half of the year while major repairs were carried out to the main ore pass to prevent further caving of the system. Operating results were above planned levels over the latter half of the year.

Successful underground exploration replaced 163,000 tonnes of the mined reserves. No further underground exploration is planned. The difficult, highly-stressed, ground conditions in this deep mine continue to be successfully controlled through adherence to a specific ore extraction plan.

The Division's Norbec mill operated well and produced 130,920 tonnes of copper concentrates and 450 tonnes of zinc concentrates. A continuing environmental rehabilitation and reclamation program is under way at the mill and the Division's three former mine sites.

LAC SHORTT DIVISION

The \$20 million deepening project at the Lac Shortt gold mine, located west of Chapais, Quebec, was completed during the second quarter on schedule and on budget. A total of \$5 million was spent in 1990 to complete this work. The development has accessed the mine's remaining ore reserves between the 500 and 800 levels. The mining method was successfully converted to a safer system in this area, which has highly-stressed ground conditions.

Gold production was adversely affected by low ore grades and because of reduced mill throughput caused by the increased hardness of the ore and repairs to the shaft which was damaged in 1989 by a rockburst. The Division contributed a \$1.7 million cash operating profit in 1990 compared to \$5.9 million in the previous year.

At the end of the third quarter the Company wrote-down the carrying value of the Lac Shortt asset base by \$10 million to reflect more accurately the value of the remaining reserves at current gold prices.

FINANCIAL REVIEW

	<i>Winston Lake</i>		<i>Lac Dufault</i>		<i>Lac Shortt</i>		<i>Opemiska</i>		<i>Samatosum</i>	
	1990	1989	1990	1989(1)	1990	1989	1990	1989	1990	1989(1)
Average price received:										
copper (\$ per pound)	1.37	1.31	1.31	1.17			1.35	1.26	1.38	1.32
zinc (\$ per pound)	0.79	0.88	0.63						0.83	0.81
lead (\$ per pound)									0.42	0.38
gold (\$ per ounce)	494	437	438	462	489	531	434	504	438	443
silver (\$ per ounce)	4.93	6.74	5.20	6.12	5.87	6.57	5.20	6.28	5.83	6.07
(\$000s)										
Net sales	60,696	47,043	73,619	21,531	20,899	21,283	17,150	18,971	34,406	12,365
Cost of production:										
Mining	13,376	14,755	14,085	6,734	10,062	6,579	9,362	11,248	11,141	7,921
Milling	5,451	5,173	4,385	2,074	3,772	3,563	1,358	1,741	3,785	1,992
Plant	1,343	1,133	1,457	878	2,108	1,878	3,444	4,069	406	175
General	4,224	3,523	2,255	1,117	3,199	3,193	3,511	3,950	1,607	766
	24,394	24,584	22,182	10,803	19,141	15,213	17,675	21,008	16,939	10,854
Operating profit (loss)	36,302	22,459	51,437	10,728	1,758	6,070	(525)	(2,037)	17,467	1,511
Minority interest					96	132			4,420	268
Royalties									1,667	618
Underground exploration			453	147	390	673	429	3,326		
Depreciation & amortization	10,235	7,538	19,799	7,219	11,283(2)	6,185	934	146	9,873	1,872
Profit (loss) before tax	26,067	14,921	31,185	3,362	(10,011)	(920)	(1,888)	(5,509)	1,507	(1,247)

(1) Based on six months' production. (2) Excludes write-down of \$10,000,000.

PRODUCTION REVIEW

	<i>Winston Lake</i>		<i>Lac Dufault</i>		<i>Lac Shortt</i>		<i>Opemiska</i>		<i>Samatosum</i>	
	1990	1989	1990	1989(1)	1990	1989	1990	1989	1990	1989(1)
Tonnes milled (000s)	346	303	425	163	349	350	340	382	169	79
Grade:										
copper, %	1.1	0.9	8.2	7.2			1.8	1.3	1.2	0.9
zinc, %	17.7	15.8							2.9	4.1
lead, %									1.6	2.2
gold, grams per tonne	1.4	1.1	2.4	1.9	4.1	3.9	1.7	2.2	1.9	1.4
silver, grams per tonne	36.6	32.0	29.9	25.3			13.4	11.7	1,072.0	739.0
Production:										
copper, pounds (000s)	6,698	4,802	75,091	25,022			12,915	10,411	3,225	1,018
zinc, pounds (000s)	128,960	99,287	520						7,099	4,844
lead, pounds (000s)									5,831	2,801
gold, ounces	6,954	3,835	30,032	8,245	42,855	40,083	16,542	24,093	8,998	2,925
silver, ounces (000s)	160	114	325	103	2	2	121	121	5,342	1,741
Operating cost:										
\$ per tonne milled	70.43	81.18	52.14	67.14	54.78	43.51	52.02	54.99	100.14	137.86
Number of employees, December 31	174	152	199	215	154	158	214	284	51	53
Lost time accident frequency per 200,000 hours worked	1.3	4.5	4.6	2.5	0.7	5.9	5.9	3.8	0.0	5.7

(1) Based on six months' production.

OPEMISKA DIVISION

The 37 year old Opemiska operation at Chapais, Quebec, is rapidly approaching the end of its ore reserves. The Division's orderly closure is planned for mid-1991.

During 1990, this Division had a \$0.5 million cash operating loss compared to a \$2.0 million loss in 1989. Since August 1990, the operation has been maintaining a positive monthly cash flow which is expected to continue until close-down. The mill produced 26,860 tonnes of copper concentrates during the year.

SAMATOSUM DIVISION

The Samatosum open-pit and milling operation, situated near Barriere, British Columbia, exceeded its planned mill throughput and predicted metallurgical performance in its first full year of production. Mill feed grades were as forecast in the first half of the year when mining in the massive, higher grade portion of the ore-body. The grade estimates, however, were not met during the second half while mining in a thinner, disseminated ore zone. The Company's share of the Division's cash operating profit was \$11.4 million compared to \$0.6 million in its initial six months of operation in 1989. The mill produced 5,740 tonnes of copper concentrates, 6,560 tonnes of zinc concentrates and 4,090 tonnes of lead concentrates, with precious metals chiefly being contained in the copper concentrates.

The ore reserve base was reduced during the year by the quantity of ore mined and by an additional 59,000 tonnes due to the disruption of the ore zone by a previously unrecognized fault zone. An adit has been

driven into the wall near the base of the pit as part of an underground program to evaluate the reserves beyond the pit limits. Surface exploration is continuing on the rest of the property.

Exploration and Development

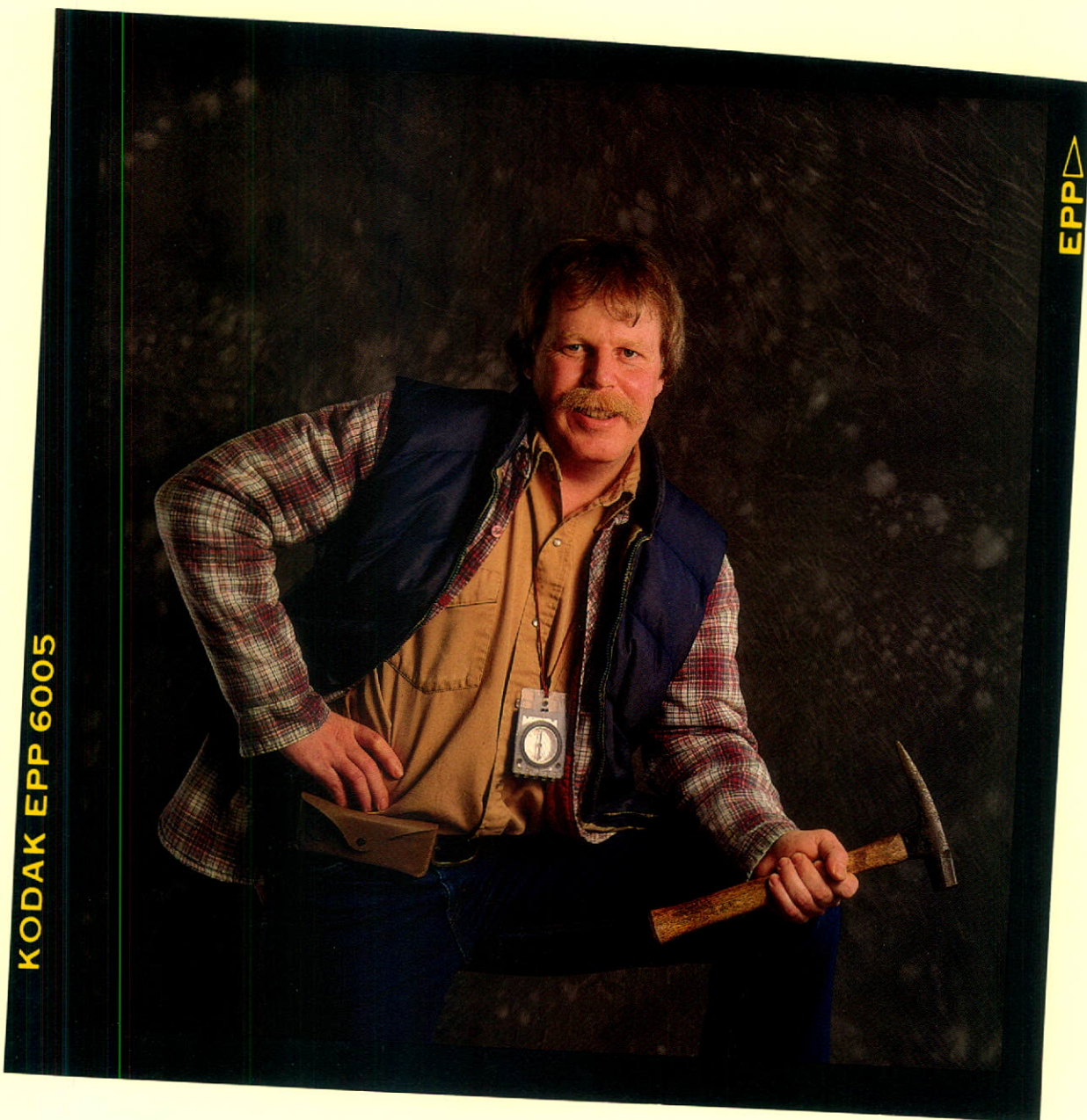
Exploration for base and precious metal deposits continued throughout the year directed from regional field offices located in Chapais and Rouyn-Noranda, Quebec; Thunder Bay, Ontario; Vancouver, British Columbia; and Reno, Nevada. An office is being established in Panama City, Panama to pursue mining opportunities in Central America. Significant projects worked on throughout the year were as follows:

LAC FROTTÉ

Studies are in progress on this gold-copper deposit located 120 kilometers north of Chibougamau, Quebec. Drill-indicated geological reserves of 21.2 million tonnes at a grade of 2.1 grams of gold per tonne and 0.2% copper have been identified from surface to a depth of 200 meters. A bulk sampling project is currently under way and additional drilling in the area continues. Engineering, environmental and cost studies on this potentially open-pit deposit are in progress.

MOBRUN

Underground exploration and engineering studies progressed throughout the year on the Mobrun 1100 lens. Minnova continued to earn into a 50% joint venture interest in the 1100 lens by funding the underground



Rob Fraser is a project geologist in our Chibougamau exploration region.

His commitment to discovering ore and his hard work in often adverse field conditions are characteristic of our exploration team. Rob's earlier efforts led to the discovery of the Lac Frotet gold deposit which is presently undergoing economic evaluation.



exploration being carried out by the operator, Audrey Resources Inc. The undiluted geological reserves, as calculated by Minnova, are currently 8.1 million tonnes grading 0.8% copper, 5.6% zinc, 39.6 grams of silver and 1.4 grams of gold per tonne. Drifting in the lens has provided bulk samples for metallurgical test work as well as data on the rock conditions. Economic viability studies are in progress.

RFC RESOURCE FINANCE CORPORATION

Kerr Addison owns a 44% equity interest in RFC Resource Finance Corporation, which is evaluating its Pend Oreille zinc-lead property located in northeastern Washington State. A 52,000 foot underground diamond drilling program was carried out to test the lower Yellowhead horizon. This work demonstrated the continuity and regularity of this shallow-dipping mineralized zone over a 3,000 foot length trending northeast from the old workings. Drill results at the

northeastern extremity indicate that the mineralization is increasing in grade and thickness. This zone is still open to the northeast and further drilling is now in progress.

During the year, appraisals of the surface facilities, which include a 2,400 ton per day milling complex, were carried out. Metallurgical investigations demonstrated the excellent milling characteristics of the mineralization.

PICK LAKE

Exploration drilling at Pick Lake, located 1.5 kilometers southwest of the Winston Lake mine, intersected 13.4 meters of high-grade mineralization assaying 25% zinc, 2.6% copper, 106 grams of silver and 0.4 grams of gold per tonne. This mineralization is at a vertical depth of 1,050 meters. Several subsequent drill holes intersected similar mineralization over narrower widths and additional drilling will be carried out in 1991.

ORE RESERVES (Diluted) at December 31, 1990

Deposit	Category	Tonnes	% Copper	% Zinc	% Lead	(g/t) Silver	(g/t) Gold
<i>Winston Lake</i>	proven	682,000	1.2	16.4		39.4	1.7
	probable	1,270,000	1.1	14.6		29.2	1.1
	possible	307,000	0.8	9.9		19.8	0.6
	Total	2,259,000	1.1	14.5		31.0	1.2
<i>Ansil</i>	proven	842,000	7.3	0.8		25.8	1.5
	probable	150,000	3.0	1.9		12.2	0.3
	Total	992,000	6.7	1.0		23.8	1.3
<i>Lac Shortt</i>	proven	255,000					4.8
	probable	270,000					4.9
	Total	525,000					4.9
<i>Opemiska</i>	proven	183,000	2.2				1.8
<i>Samatosum</i>	proven	15,000	1.0	3.1	1.8	842	1.0
	probable	220,000	0.8	1.3	0.8	719	0.8
	possible	248,000	0.8	2.0	1.1	639	1.1
	Total	483,000	0.8	1.7	1.0	682	1.0

g/t - grams per tonne

KODAK EPP 6005

EPP



John Fife operates a remote-controlled scooptram at our Winston Lake mine. The knowledge and expertise he exhibits in his function, as well as his special attitude towards working safely and effectively are highly regarded qualities throughout the Company's operations.



Refining
CANADIAN ELECTROLYTIC
ZINC

Production of zinc slab at the C.E.Zinc refinery in Valleyfield, Quebec, increased to 202,000 tonnes in 1990 compared to 190,000 tonnes in 1989. Extended problems in the leach circuit and a furnace failure in August prevented higher production levels from being achieved and also increased the operating costs. Net income for Kerr Addison was \$2.8 million in 1990 compared to \$3.8 million the previous year. The operation managed to maintain a solid concentrate inventory level through to year-end despite a prolonged strike at a mine that is one of C.E. Zinc's largest sources of concentrate.

Commissioning of the new cellhouse, a major part of C.E. Zinc's modernization project, commenced in October. This replacement facility has the capacity to refine 230,000 tonnes of zinc per year. The zinc powder plant was in commercial production by mid-year after successful certification of the product by the customer. This plant produces a specialized zinc powder used by battery manufacturers.

Mining and Refining Interests		
Minnova Inc.		50.4%
Operating Mines		
Winston Lake Division	100%	
Lac Dufault Division	100%	
Lac Shortt Division	95.4%	
Opemiska Division	100%	
Samatsum Division	70%	
Canadian Electrolytic Zinc		9.8%
Oil and Gas Interests		
Anderson Exploration Ltd.		30.5%

Oil and Gas
ANDERSON EXPLORATION
LTD.

Anderson Exploration achieved another record year in terms of production and financial performance. In order to finance its highest ever annual capital expenditure program, Anderson supplemented its cash flow from operations with proceeds from the sale of investments and by issuing additional equity. Through prudent management, Anderson has markedly increased its development and production activities thereby enhancing its financial results.

Anderson's aggressive, selective land acquisition program continued throughout the year resulting in an increase in land inventory to 906,000 net acres from 867,000 net acres in the previous year. The primary focus of exploration was on the location of Devonian D-1 oil pools in the Peace River area and natural gas reservoirs in eastern Alberta. On a proven barrel equivalent basis, Anderson replaced about 175% of its 1990 production.

With the first full year of production from the D-1 pools which were discovered by Anderson in 1989, oil volumes increased 134% over the levels of the previous year. The average selling price was \$21.47 per barrel of oil compared to \$17.27 per barrel in 1989. An ongoing program of development drilling and construction of handling facilities in the D-1 area will continue throughout 1991.

KODAK EPP 6005



EPP

André Daudelin is a long-standing employee of C.E. Zinc whose main function is to load, dress and maintain its zinc furnaces at maximum efficiency. Excellent people using the best of facilities make C.E. Zinc one of the world's leading refineries.



Production volumes of natural gas decreased from the previous year partly because of pipeline restrictions. Anderson's Dunvegan field continues to be its most important source of natural gas and liquids production. A major expansion and modification of the gas gathering and processing facilities at Belloy in the Peace River area was completed during the year. Construction of the Wildmere gas gathering and processing plant was completed in November 1990. This is a wholly-owned 20 million cubic feet per day facility which is expected

to add 9 billion cubic feet to Anderson's gas production in 1991. The average selling price for gas, based on Anderson's total production, was \$1.93 per thousand cubic feet.

Net expenditures on exploration, land acquisition, development drilling and construction of facilities were \$72.5 million during Anderson's fiscal year. Its operating cost of \$3.42 per barrel equivalent, which is low by industry standards, is expected to decrease as the new systems come fully on-stream.

Anderson is in good financial shape and has the resources to continue an active exploration and development program. Due to the current world uncertainties affecting the oil and gas markets, Anderson has developed a flexible capital expenditure budget for 1991 and, as its capital obligations are low, it can control the timing of expenditures as circumstances warrant.



Peter Bojtos, P.Eng.

Vice-President - Corporate Development

Toronto, Canada, February 6, 1991

ANDERSON EXPLORATION LTD.		
HIGHLIGHTS (September 30th year-end)		
Financial (000's)	1990	1989
Revenues (net of royalty)	\$ 66,300	\$ 51,000
Net earnings	13,200	11,000
Cash flow	43,600	34,000
Net capital expenditures	72,500	32,300
Long term debt	75,000	80,000
Shareholders' equity	182,700	131,000
Production:		
Natural gas (millions of cubic feet per day)	66.0	71.3
Oil (barrels per day)	3,821	1,636
Natural gas liquids (barrels per day)	1,162	1,155
Reserves:		
Natural gas (billions of cubic feet)		
- Proven	575	556
- Proven plus probable	872	810
Oil and gas liquids (millions of barrels)		
- Proven	16.4	15.3
- Proven plus probable	24.0	23.8
Drilling Activity:		
Wells drilled		
- Gross	105	77
- Net	77	49

OPERATIONS

Operating profit for the year of \$39.4 million compares with \$15.3 million in 1989 and \$22.2 million in 1988. The most important factor to consider when comparing the current year's results with those of 1989 is that our two new mines, Ansil and Samatosum, both of which commenced commercial production on July 1, 1989, contributed to income for the full year. These two mines were the major sources of increases in sales, cost of production, depreciation and amortization, and operating profit.

Improvements in copper and gold output are mainly attributable to the Ansil mine, while at Winston Lake, zinc production was up as the mine was successful in controlling the ground conditions which had inhibited production in 1989. Metal output at the Canadian Electrolytic Zinc refinery was up 7% for the year although sales values were about the same as in 1989 due to lower average prices. Profits from C.E. Zinc were down because of increased operating costs. An improvement in silver sales was due to the full year's operation at the Samatosum mine. Gold bullion produced at the Lac Shortt mine showed an increase of 7% over 1989. The Opemiska Division produced as scheduled in 1990, but is expected to mine out its remaining economic reserves by the middle of 1991.

Metal prices, on average, were lower than in 1989. Base metals and silver were down about 10% while the average price for gold was up a modest 2%. Forward sales positions, related to the production of metals, are taken from time to time, primarily to ensure the recovery of the capital cost of a mine. In addition, sales were negatively impacted by the increased strength of the Canadian dollar against its U.S. counterpart.

INVESTMENTS

The gain on sale of investments and other assets at \$7.3 million is \$5.3 million greater than last year, primarily because of the 1989 write-down of investments in junior mining companies. In 1990, a gain of \$4.8 million was recognized upon the scheduled redemption of preferred shares acquired in respect of the sale of substantially all of our interest in the Canadian Hunter Joint Venture. In 1989, an initial gain on this sale was recorded in the amount of \$7.6 million. An associated company, Anderson Exploration Ltd., sold common shares and warrants for net proceeds of \$35.4 million. Kerr Addison did not participate in this equity issue, and its share interest in Anderson was reduced to 30.5%. This resulted in a \$2.6 million dilution gain.

Dividend and interest income totalled \$23.3 million and compares with \$25.5 million and \$22.0 million in each of the two prior years. The current year's decline reflects reduced average holdings in cash and short-term securities.

Our share of profit of Anderson Exploration Ltd. is \$1.9 million, a reduction of \$2.4 million from 1989. A year ago Anderson's earnings included an \$8.4 million gain on disposal of its investment in B.C. Sugar Refineries Limited. There was no comparable transaction in the current year. In January 1991, Kerr Addison announced its intention to sell all of its interest in Anderson, in order to concentrate its resources in the mining industry.

MINERAL EXPLORATION

The current year's cost of our search for additional ore reserves was \$23.9 million, nearly \$4 million more than in each of the two previous years. This is the result of expenditures on the evaluation of the Mobern 1100 lens and the fact there were no flow-through shares issued in 1990 (\$1.5 million in 1989, \$3.5 million in 1988). Exploration costs were funded from operating cash flow. The Company's mineral exploration budget has been established at \$15 million for 1991, with funding to be provided from operating cash flow.

OTHER ITEMS

At Lac Shortt, a review was carried out during the third quarter of 1990 of the projected revenues and expenses for its remaining two year mine life. This study indicated that a substantial increase in gold prices would be required to permit the recovery of the Company's investment in that mine. As a result, it was considered appropriate to make a pre-tax charge of \$10 million against earnings. By comparison, in 1989, the \$7.2 million carrying value of the Donalda gold project was written off.

In 1990, the Company conducted a review of the anticipated costs associated with the ultimate closure of its mines, including the net costs of dismantling and selling equipment, reclamation, and employee severances. Provisions for these costs in the amount of \$2,000,000 have been included in Cost of production and \$10,000,000 as a Provision for mine closure costs in the 1990 Statement of Operations.

Provisions for mine closure costs are, of necessity, uncertain estimates of future costs because definitive closure plans cannot be made or approved by the regulatory authorities until each of the mines has ceased operations. Additional provisions, if any, against closure will be charged to future years' operations.

The Company is committed to a program of responsible environmental management and is substantially in compliance with environmental regulations at all of its operations. The provision for closure will be reviewed regularly to determine its adequacy. The closure costs will be funded from operating cash flow. Although there can be no assurances that future changes in the standards and regulations will not have a negative impact on future operating results, management feels that such future changes would not reduce significantly the Company's financial strength.

An amount of \$8 million has been set up as an account receivable and reflected in income for the year 1990. This represents a cash refund of Quebec mining duties applicable to qualifying exploration, development and plant and equipment expenditures incurred in the Province of Quebec after April 23, 1985. The Company had the option to claim a cash refund or carry forward the expenditures and deduct them from future years' mining income. In 1990, the Company filed a claim for the cash refund applicable to expenditures deducted from income for Quebec mining duty purposes to the end of 1990.

Net Income for the year was \$17.6 million, compared to \$12.6 million in 1989 and \$10.5 million in 1988.

CAPITAL EXPENDITURES

During 1990, \$19.0 million was expended on additions to property, plant and equipment. Approximately one-half of this amount was for the C.E. Zinc plant modernization, \$5 million to complete the Lac Shortt mine deepening and \$2.5 million on a new ventilation raise at Winston Lake. By comparison, capital expenditures in 1989 were \$48.2 million and in 1988, were \$55.7 million. Capital expenditures for 1991 are expected to be \$8.4 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash and short-term securities at December 31, 1990 of \$89.7 million were down \$5 million from a year ago, and were \$128.2 million at December 31, 1988. Cash balances are expected to increase over the next few years, provided that no new capital projects are undertaken, because of strong cash flow. The preferred shares related to the Canadian Hunter sale have been exchanged for a promissory note issued by Noranda Inc. for the equivalent value (\$46.8 million) which carries the same redemption features. The note is expected to be redeemed rateably over the next four years. This holding, together with the 7.4 million shares of Noranda Inc. and our investment in Anderson Exploration Ltd. have a book

value of \$255.4 million. The Company intends to liquidate these holdings at the appropriate time and re-deploy the funds to the expansion of our mining interests.

Two Canadian chartered banks provide lines of credit totalling \$115 million. Revolving credit facilities amount to \$105 million while operating lines total \$10 million. Loans under these facilities may be funded by way of bankers' acceptances (currently \$45 million are outstanding), promissory notes or United States Eurodollar loans. The credit facilities expire in January 1992 and will be reviewed, prior to their expiry dates, with a view to renewing them.

With a positive outlook for cash flow, \$143 million of working capital and its relatively large investment portfolio, the Company considers itself well positioned to take advantage of new opportunities in the mining industry.

OUTLOOK

The primary challenge facing us today is to build upon our mineral reserve position. We will maintain our strong exploration effort in 1991. Our exploration and acquisition parameters are clearly defined to add reserves near existing operations and bring on new mines which are cost competitive and have long life.

The prices that the Company receives for its products are, by and large, determined by world-wide influences on supply and demand. Prices for metals can change dramatically over short periods and, as most of the prices are quoted in U.S. or European currencies, the relative value of the Canadian dollar is significant. As most of the Company's operating costs, at least in the short term, are relatively fixed, prices and foreign exchange movements have an immediate impact on operating profits. Generally, we feel that base metal prices will, on average, decline in 1991 from 1990 levels. The impact of this on the Company's earnings could be softened somewhat by a weaker Canadian dollar.

Toronto, Canada, February 6, 1991

ACCOUNTING POLICIES

December 31, 1990 and 1989

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada applied on a consistent basis. The principal accounting policies are summarized hereunder to facilitate review of the consolidated financial statements.

(a) Basis of consolidation

The consolidated financial statements include the accounts of Kerr Addison Mines Limited ("Kerr Addison" or "the company"), its 50.4% owned subsidiary company, Minnova Inc. ("Minnova"), and its wholly-owned subsidiary companies, Keradamex, Inc. and Kerramerican, Inc. The company is a member of the Noranda Group of companies. At December 31, 1990, Noranda Inc. ("Noranda") holds 48.4% of the issued common shares of the company.

The company has a direct and undivided interest of 9.8% in all of the properties, production and related activities of Canadian Electrolytic Zinc ("C.E. Zinc"). Noranda is a major holder and operator of this venture. The company's share of C.E. Zinc's assets, liabilities, revenues and expenses is included in the consolidated financial statements.

(b) Investments in associated companies

The company owns 3.9% of the common shares of Noranda. The investment is accounted for on the cost method.

The company owns 30.5% of the common shares of Anderson Exploration Ltd. ("Anderson"). The investment is accounted for on the equity method whereby the investment is initially recorded at cost and the carrying value is adjusted thereafter to reflect the company's share of post-acquisition profits or losses.

(c) Revenue recognition

Metals contained in concentrates are sold under contracts. Gold bullion and refined metals are sold on a spot basis. Forward sales positions, related to mine production of gold, copper and silver, are taken from time to time. Estimated revenues, based upon anticipated metal prices or forward sales commitments, are recognized when the concentrates, bullion and refined metals are produced. The estimated revenues from metals in concentrates may be subject to adjustment on or before final settlement, usually four months after the date of shipment, to reflect changes in metal market prices and weights and assays. The inclusion in sales of the excess of realizable value over cost of metals on hand is not significant.

(d) Valuation of concentrates, bullion and refined metals

Concentrates, bullion and refined metals awaiting settlement, in transit and on hand are valued at estimated realizable value except that a portion of the in-process inventories of C.E. Zinc (i.e., a base stock amount required to maintain the continuous smelting and refining process) is priced at cost.

(e) Property, plant and equipment

Mining and smelting -

Property, plant and equipment and related expenditures are recorded at cost less applicable investment tax credits and government assistance. Property, plant and equipment includes previously deferred exploration and development expenditures on properties which have been brought into production. Preproduction and development expenditures on projects under construction are capitalized until the commencement of commercial production.

Mineral exploration and development expenditures are charged against current earnings unless they relate to interests in properties where the reserves have the potential of being economically recoverable, in which case the expenditures are deferred. Upon disposal or abandonment of such interests, the net gain or loss is reflected in earnings. If the properties are brought into production, deferred

exploration and development expenditures relating thereto are reclassified with property, plant and equipment.

Depreciation of mining assets is provided on the unit-of-production basis over the estimated economic life of the related mine. Depreciation of smelting assets is provided on the straight-line method over periods of 4 to 25 years. When it is clear that the carrying value of a particular property exceeds the net recoverable amount, the excess is charged to earnings.

Oil and gas -

Anderson follows the full cost method of accounting whereby all costs associated with the exploration for and development of oil and gas reserves, whether productive or unproductive, are capitalized in cost centres on a country-by-country basis and charged against earnings as set out below. Such costs include land acquisition, drilling, geological and geophysical interest and overhead expenses related to exploration and development activities.

Depletion is provided on costs accumulated in producing cost centres using the unit-of-production method based on estimated proven oil and gas reserves. Anderson periodically reviews the costs associated with unproven properties to determine whether they are likely to be recovered. When costs are not likely to be recovered, an impairment allowance is made. The carrying value of the company's investment in Anderson is limited to an ultimate recoverable amount which is the aggregate of future net revenues from proved reserves and the costs of unproved properties, net of impairment allowances, less future general and administrative costs, financing costs and income taxes. Future net revenues are estimated using year-end prices.

(f) Mine closure costs

Mine closure costs are accrued when estimates of such costs are reasonably determinable.

(g) Income taxes

The company follows the deferral method of applying the tax allocation method of accounting for income taxes. Under this method, timing differences between the period when income or expenses are reported for tax purposes and the period when they are recorded in the accounts result in deferred income taxes.

The future tax benefits of tax loss carry forwards are recorded in income only when there is virtual certainty of their recovery; if there is not virtual certainty of realization, the benefits are recognized in the accounts as they are realized.

(h) Retirement costs

The company has retirement plans covering substantially all employees. The "projected benefit" actuarial method, based on management's best estimate assumptions, is used to value benefit obligations. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service lives of the employee groups. Current service costs are expensed in the year. Market related asset values are determined on a five year average basis.

(i) Flow-through shares

The company issues common shares ("flow-through" shares) from time to time which entitle the subscriber to earn tax deductions in respect of qualifying exploration expenditures made by the company. The portion of the subscription price of such shares, which is based on their market value, is credited to share capital. The remainder of the subscription price (the "premium") attributable to the tax benefits transferred to subscribers is credited either to exploration expenditures or capitalized expenditures on properties under development.

KERR ADDISON MINES LIMITED

(Incorporated under the laws of Ontario)

CONSOLIDATED STATEMENTS OF OPERATIONS

	(in thousands of dollars)	
For The Years Ended December 31	1990	1989
Net sales	\$211,596	\$131,685
Less:		
Cost of production	109,799	88,254
Depreciation and amortization	62,417	28,147
Operating profit	39,380	15,284
Gain on sale of investments and other assets (note 6)	7,288	2,053
Dividend and interest income	23,272	25,452
Share of profit of Anderson Exploration Ltd.	1,861	4,347
	71,801	47,136
Deduct:		
Administrative and general expenses	3,438	2,778
Mineral exploration expenses (1989-net of premium on flow-through shares, \$1,150)	23,919	20,255
Interest on long-term debt	18,266	18,627
Write-down of carrying value of mining properties (note 3)	10,000	7,163
Provision for mine closure costs (note 8)	10,000	
Refund of Quebec mining duties (note 9)	(8,000)	
Minority interest in earnings (loss) of Minnova Inc.	7,479	(3,400)
Recovery of income taxes (note 7)	(10,912)	(10,926)
	54,190	34,497
Net income for the year	\$ 17,611	\$ 12,639
Earnings per share	\$ 1.00	\$ 0.72

(See notes to consolidated financial statements)

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	<i>(in thousands of dollars)</i>	
<i>For The Years Ended December 31</i>	1990	1989
Cash provided by (used in) operating activities:		
Net income for the year	\$ 17,611	\$ 12,639
Items not affecting cash —		
Depreciation and amortization	62,417	28,147
Writedown of carrying value of mining properties	10,000	7,163
Provisions for mine closure costs	12,000	
Deferred tax recovery	(10,912)	(10,926)
Other	(3,573)	(6,980)
	<u>87,543</u>	<u>30,043</u>
Net change in non-cash working capital balances (receivables and metal settlements, less payables)	(21,428)	(15,636)
Cash provided by operating activities	<u>66,115</u>	<u>14,407</u>
Cash provided by (used in) investing activities:		
Proceeds on sale of interest in Canadian Hunter		76,500
Less preferred share consideration received		(58,500)
		<u>18,000</u>
Additions to property, plant and equipment	(19,003)	(48,219)
Net sales (purchases) of investments and other assets	9,685	(6,540)
Investment in common shares of Minnova Inc.		(2,166)
Cash used in investing activities	<u>(9,318)</u>	<u>(38,925)</u>
Cash provided by (used in) financing activities:		
Repayment of long-term debt by the company	(50,000)	
Issue of common shares by the company	189	58
Issue of common shares by Minnova Inc.		2,926
Cash provided by (used in) financing activities	<u>(49,811)</u>	<u>2,984</u>
Dividends paid (including \$1,426 in 1990 and \$1,422 in 1989 to minority shareholders of Minnova Inc.)	(11,959)	(11,950)
Decrease in cash during the year	(4,973)	(33,484)
Cash and short-term securities, beginning of year	94,691	128,175
Cash and short-term securities, end of year	<u>\$ 89,718</u>	<u>\$ 94,691</u>

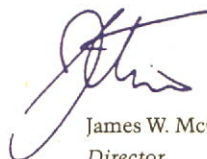
(See notes to consolidated financial statements)

CONSOLIDATED BALANCE SHEETS

<i>As at December 31</i>	<i>(in thousands of dollars)</i>	
	1990	1989
ASSETS		
Current:		
Cash and short-term securities, at cost which approximates market value (note 11(c))	\$ 89,718	\$ 94,691
Accounts and interest receivable	4,038	8,104
Concentrates, bullion and metals awaiting settlement, in transit and on hand	55,321	43,797
Supplies and materials, at cost	6,971	7,173
Quebec mining duties recoverable (note 9)	8,000	
Total current assets	164,048	153,765
Deferred income taxes recoverable	13,558	
Investments and other assets (note 2)	294,521	298,583
Property, plant and equipment (note 3)	157,019	210,697
	<u>\$629,146</u>	<u>\$663,045</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current:		
Accounts payable and accrued charges	\$ 13,448	\$ 19,511
Income and other taxes payable	556	626
Provision for mine closure costs (note 8)	7,000	
Total current liabilities	21,004	20,137
Long-term debt (note 5)	75,000	125,000
Deferred income taxes	8,522	6,776
Deferred gain on sale of interest in Canadian Hunter (note 6)	19,328	24,160
Provision for mine closure costs (note 8)	6,500	1,500
	<u>130,354</u>	<u>177,573</u>
Minority interest in Minnova Inc.:		
Convertible debentures (note 10)	65,000	65,000
Common shares	76,111	70,058
	<u>141,111</u>	<u>135,058</u>
Shareholders' equity:		
Share capital (note 4)	184,598	184,409
Retained earnings	173,083	166,005
	<u>357,681</u>	<u>350,414</u>
	<u>\$629,146</u>	<u>\$663,045</u>

(See notes to consolidated financial statements)

On behalf of the Board:


Ian D. Bayer,
Director

James W. McCutcheon,
Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For The Years Ended December 31	(in thousands of dollars)	
	1990	1989
Retained earnings, beginning of year	\$166,005	\$163,894
Net income for the year	17,611	12,639
	183,616	176,533
Dividends paid (\$0.60 per share in each year)	(10,533)	(10,528)
Retained earnings, end of year	\$173,083	\$166,005

(See notes to consolidated financial statements)

AUDITORS' REPORT

To the Shareholders of
Kerr Addison Mines Limited:

We have audited the consolidated balance sheets of Kerr Addison Mines Limited as at December 31, 1990 and 1989 and the consolidated statements of operations, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1990 and 1989 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Ernst + Young

Chartered Accountants

Toronto, Ontario
February 4, 1991

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1990 and 1989

1. Accounting policies The principal accounting policies followed by the company are detailed under the caption "Accounting Policies."

2. Investments and other assets

(in thousands)	1990	1989
Investments in associated companies:		
Noranda Inc.		
- Common shares (a)	\$119,449	\$119,449
- Note receivable (note 6)	46,800	58,500
Anderson Exploration Ltd. common shares (b)	89,198	84,737
Other investments, at cost (c)	30,241	26,155
Other assets	8,833	9,742
	<u>\$294,521</u>	<u>\$298,583</u>

(a) **Noranda Inc.** - At December 31, 1990 and 1989, the company owned 7,361,281, or 3.9%, of the outstanding common shares of Noranda. Noranda and its associated companies are engaged in businesses encompassing mining and metallurgy, manufacturing, forest products and oil and natural gas exploration and production. At December 31, 1990 the quoted market value of the shares was approximately \$122 million.

(b) **Anderson Exploration Ltd.** - At December 31, 1990 and 1989, the company owned 6,202,281 common shares of Anderson representing a 30.5% (1989 - 34.2%) equity interest. The company's interest was diluted in 1990 on the issuance by Anderson of additional treasury shares to other shareholders. A gain on dilution of \$2,600,000 is included in Gain on sale of investments and other assets (Note 6). Anderson is engaged in the exploration and production of oil and gas properties in Western Canada. At December 31, 1990, the quoted market value of the company's investment was approximately \$100 million. Subsequent to the year end, the company announced that it was offering its investment in Anderson for sale.

(c) **Other investments** - Included in Other investments at December 31, 1990 are investments with a carrying value of \$9 million, in exploration companies whose underlying properties have not yet been determined to contain economic ore reserves. The recoverability of these investments is dependent upon the discovery of economically recoverable reserves and future profitable production therefrom or the sale of the investments.

3. Property, plant and equipment

(in thousands)	1990		
	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment	\$225,563	\$124,497	\$101,066
Preproduction and development expenditures	149,430	93,477	55,953
	<u>\$374,993</u>	<u>\$217,974</u>	<u>\$157,019</u>
(in thousands)	1989		
	Cost	Accumulated depreciation and amortization	Net book value
Property, plant and equipment	\$215,456	\$ 96,080	\$119,376
Preproduction and development expenditures	146,429	55,108	91,321
	<u>\$361,885</u>	<u>\$151,188</u>	<u>\$210,697</u>

In 1990, the company wrote down the carrying value of the Lac Shortt mine by \$10,000,000. In 1989, the company wrote off its investment of \$7,163,000 in the Donalda project.

4. Share capital In 1990 and 1989, preferred and common shares without par value are authorized for issuance in an unlimited number. There are no preferred shares issued. The changes in common shares issued for the years 1990 and 1989 are set out below:

	1990		1989	
	Shares	Amount (\$000s)	Shares	Amount (\$000s)
Issued, beginning of year	17,548,177	\$184,409	17,544,527	\$184,351
Issued under employee share purchase and option plans	11,175	189	3,650	58
Issued, end of year	<u>17,559,352</u>	<u>\$184,598</u>	<u>17,548,177</u>	<u>\$184,409</u>

At December 31, 1990, options on 13,225 common shares were outstanding, exercisable at prices varying from \$15.11 to \$19.87 for periods up to 1998.

5. Long-term debt The company has a line of credit with its bankers which expires January 31, 1992. Advances totalling \$45 million are funded by bankers' acceptances. The effective interest rate payable on the bankers' acceptances is 12.9% at December 31, 1990. A further \$30 million of floating rate long-term debt is borrowed from Noranda. The debt matures on January 31, 1992, and the rate of interest is 12.3% at December 31, 1990. No assets have been pledged as collateral for the long-term debt.

6. Gain on sale of investments and other assets

<i>(in thousands)</i>	1990	1989
Gain on sale of interest in Canadian Hunter Joint Venture	\$4,832	\$7,610
Gain on issuance of share capital by associated and subsidiary companies	2,600	412
Loss on sale of investments		(5,923)
Loss on sale of fixed and other assets	(144)	(46)
	<u>\$7,288</u>	<u>\$2,053</u>

Effective January 1, 1989, the company sold substantially all of its 13% interest in the Canadian Hunter Joint Venture to a subsidiary of Noranda for total proceeds of \$76.5 million comprising \$18.0 million cash and \$58.5 million of redeemable preferred shares of the subsidiary. The preferred shares pay cumulative dividends at the rate of 70% of bank prime and are redeemable in five equal annual amounts commencing March 31, 1990. Each annual redemption is conditional upon the average specific contract price paid by TransCanada Pipelines Limited to gas producers in Alberta for the preceding twelve month period exceeding \$1.35 per MCF in constant 1988 dollars. If a required annual redemption is not made, the obligation carries forward on a cumulative basis to the next year.

Because of the conditions attaching to the redemption of the preferred shares, the total gain on the sale of \$31.8 million is being recognized in income only as cash payments are received by the company. Accordingly, \$7.6 million was reflected as income in 1989, \$4.8 million in 1990, and the balance of \$19.4 million has been deferred to future years.

Effective December 31, 1990, the preferred shares were exchanged for a promissory note from Noranda containing the same terms as those attaching to the preferred shares. The interest rate on the note is 90% of bank prime.

7. Income taxes The income tax recoveries for the years 1990 and 1989 are analyzed in the following table to show the difference between the taxes that would be payable by applying statutory tax rates to pre-tax earnings, and the tax recoveries recorded in the accounts:

<i>(in thousands)</i>	1990	1989
Earnings before income taxes and mining duties	\$ 6,699	\$ 1,713
Statutory tax rates	<u>43.3%</u>	<u>43.3%</u>
Tax at statutory rates	\$ 2,901	\$ 742
Adjusted for the effect of -		
Resource allowance	(7,017)	(2,652)
Non-taxable income	(13,351)	(15,716)
Quebec mining duties refund	(3,464)	
Minority interest	3,238	(1,472)
Flow-through exploration expenditures		3,851
Other (net)	<u>6,781</u>	<u>4,321</u>
Tax recovery, as recorded in the accounts	<u>\$(10,912)</u>	<u>\$(10,926)</u>

8. Provision for mine closure costs In 1990, the company conducted a review of the currently anticipated costs associated with the closure of its mines, including the net costs of dismantling and sale of equipment, reclamation, and employee severances. Provisions for these anticipated costs in the amount of \$2,000,000 has been included in Cost of production and \$10,000,000 as a Provision for mine closure costs in the 1990 Statement of Operations.

Provisions for mine closure costs are, of necessity, uncertain estimates of future costs because definitive closure plans cannot be made or approved by the regulatory authorities until each of the mines has ceased operations. Additional provisions, if any, against closure will be charged to future years' operations.

9. Refund of Quebec mining duties An amount of \$8,000,000 has been reflected in income for the year 1990, and set up as an account receivable at December 31, 1990, representing a cash refund applicable to qualifying exploration and development and plant and equipment expenditures incurred in the Province of Quebec after April 23, 1985. The company had the option to claim for a cash refund or carry forward the expenditures and deduct them from future years' mining income. In 1990, the company exercised its option to file a claim for the cash refund applicable to expenditures deducted from income for Quebec mining duty purposes to the end of 1990.

10. Convertible debentures of Minnova Inc.

The adjustable rate convertible subordinated debentures are unsecured obligations of Minnova. The debentures mature on September 30, 2007, and pay interest at a rate per annum equal to the greater of (i) 5% and (ii) 1% plus the percentage that two times the dividends paid on the common shares of Minnova in the six months ended on the date six months prior to the interest payment date is of the conversion price. The debentures are convertible at the holder's option into common shares of Minnova on or before the earlier of September 29, 2007 and the last business day prior to redemption, at a conversion price of \$34.25 per common share. At any time after September 30, 1992, Minnova may adjust the conversion price to \$38.00, provided that Minnova also fixes the interest rate at 6% per annum.

The debentures are redeemable by Minnova at par plus accrued interest after September 30, 1992 and, at any time prior to that date, at 105% of par plus accrued interest if at least 85% of the original principal amount of the debentures have been converted. On September 30, 2007, Minnova has the option to retire any debentures then outstanding by issuing common shares at the average closing market price for the 30 trading days prior to maturity. The characteristics and attributes attaching to the debentures, including Minnova's option to apply the proceeds of redemption of the debentures at maturity to subscribe for and purchase common shares, causes the company to view those securities as permanent capital and hence includible with the minority interest in Minnova.

11. Related party transactions Details of significant transactions with the Noranda Group for the years 1990 and 1989 are set out below:

(a) Canadian Electrolytic Zinc ("C.E. Zinc") – The company's portion of zinc concentrate purchased on the company's behalf by C.E. Zinc from the Noranda Group amounted to approximately \$13,828,000 (1989 – \$16,939,000).

(b) Marketing and administrative services – The Noranda Group markets substantially all of the company's production and renders technical and administrative services to the company. During the year marketing fees were \$450,000 (1989 – \$480,000) and fees for technical and administrative services were \$215,000 (1989 – \$205,500). Copper and zinc concentrates and gold bullion sales by the company to the Noranda Group during 1990 amounted to approximately \$171,547,000 (1989 – \$107,943,000).

(c) Short-term securities – The company participates in a short-term investment pool with the Noranda Group. The pool is operated to provide participating companies with the opportunity to invest or borrow funds on a short-term demand basis within the Noranda Group. During 1990, the company earned interest on net deposits amounting to \$2,052,351 (1989 – \$1,497,000). At December 31, 1990, the company's deposit to the pool was \$41,460,000 (1989 – Indebtedness of \$1,810,000).

The company has a \$50,000,000 (\$100,000,000 in 1989) investment in the common shares of an affiliated company. These shares, whose cost approximates market, are included in short-term securities. Dividends received on these shares during the year amounted to \$8,692,000 (1989 – \$9,284,000).

(d) The company and Minnova carry on certain of their exploration activities in a 50-50 joint venture operated by Minnova. For the year ended December 31, 1990, the company's share of the costs was \$4,105,000 (1989 – \$3,245,000).

12. Commitments and Contingencies

(a) Capital expenditure commitments –

Capital expenditure commitments for 1991 are estimated to be \$8,400,000.

(b) Forward metal sales –

Copper – At December 31, 1990, 11 million pounds of copper are contracted for delivery in various quantities monthly from January 1991 through March 1991 at an average price of U.S. \$1.16 per pound. Silver – At December 31, 1990, 2.1 million troy ounces of silver are contracted for delivery in various quantities monthly from January 1991 to April 1992 at an average price of U.S. \$7.10 per ounce.

13. Retirement plans The most recent actuarial valuation of the retirement plans was carried out at December 31, 1988. The valuation results, which were based on projections of interest, employees' compensation levels and length of service to time of retirement, extrapolated to December 31, 1990, indicate that the estimated actuarial present value of accrued pension benefits and the estimated market-related value of the pension fund assets were as follows:

<i>(in thousands)</i>	1990	1989
Accrued pension benefits	\$20,196	\$17,107
Pension fund assets	\$34,577	\$32,408

14. Litigation Minnova's 100% ownership of its Winston Lake mine is subject to a 10% net proceeds of production royalty under the terms of the original 1980 option agreement. In December of 1987, an action was instituted against Minnova alleging, among other things, that under the option agreement the previous owner is entitled to purchase a 20% participating ownership interest in the mine rather than the 10% net proceeds of production royalty.

Minnova's 95.7% ownership interest in its Lac Shortt gold mine is subject to a 7.5% net proceeds of production royalty under the terms of the original 1979 option agreement. In January of 1988, an action was instituted against Minnova alleging, among other things, that the annual royalty calculations performed by Minnova pursuant to the 1979 agreement were not done in accordance with the agreement.

The company believes, based on the advice of legal counsel, that it has good defences to these actions and accordingly no provision has been made in the accounts.

15. Reclassification of 1989 comparative figures

In 1990 depreciation and amortization is included with cost of production in the statement of operations whereas, in 1989 and prior years, it was shown as a deduction after operating profit. The 1989 comparative figures have been reclassified accordingly.

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